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USTR FOR COLEMAN

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FEBRUARY 29, 2008 ISSUE

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¶1. (U) Summary. This is Volume 8, issue 9 of U.S.
Embassy PretoriaQs South Africa Economic News Weekly
Newsletter.

Topics of this week's newsletter are:
- Textile Sector Seeks Survival Aid
- SA-EU Trade Row Puts Customs Union at Risk
- U.S. Trade with Sub-Saharan Africa Increases
- GDP Growth Surprises
- Inflation Surged to a Near Five-Year Peak
- Power in South Africa
- Mining Takes on SA Power Crunch
- Treasury Carbon Footprint Revealed
End Summary.

Textile Sector Seeks Survival Aid

¶2. (U) South AfricaQs largest textile manufacturer, Frame Textiles,

called on the government to save the industry, which has been
earmarked
as a key job-creating sector. This comes amid concerns that high
input
costs, in addition to South AfricaQs power problems, are increasing

pressure on a sector that has already been forced to cut jobs.
Textile
Federation Executive Director Brian Brink confirmed that the
industry,
which employs about 44,000 workers, was shedding jobs. Employment
at
textiles mills shrank about 10% this year. High international
prices
for commodities, particularly oil, and a weaker currency have seen
the
price of raw materials soar, putting pressure on the industry.
According to Frame Textiles Managing Director Walter Simeoni, the
sector
has seen input prices for caustic soda increase by as much as 68% in
the
past eight months. Cotton and viscose fiber have risen 35% and 63%,

respectively, packaging material has increased 22%, and freight costs
are now 12%-34% higher than eight months ago. Coal prices, which have
risen 60%, were also adding to pressure on textile manufacturers.
Simeoni said retailers, aiming to preserve their own margins, were
putting pressure on manufacturers to absorb increasing costs, but these
expectations were unrealistic. South AfricaQs clothing and textiles

industry has been hammered by cheap imports, especially from China. A
curb on the imports through the implementation of quotas on Chinese

products has done little to improve the industryQs lot as retailers have
turned to other countries for imports. Furthermore, the textile
industry faces the possibility of losing protection through import
tariffs, as the International Trade Administration Commission (ITAC) is
contemplating cutting duties on textiles in a bid to drive down input
costs to help clothing manufacturers. While clothing and textiles have
been identified as a key industry for industrial policy support from the
government, the program is yet to be implemented. (Business Day,
February 26, 2008)

SA-EU Trade Row Puts Customs Union at Risk

¶3. (U) The future of the Southern African Customs Union (SACU) hangs in

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the balance, even as engagement takes place to save the worldQs oldest
customs union. SACU was divided last year when Botswana, Lesotho,
Namibia and Swaziland broke ranks with South Africa and signed an
interim Economic Partnership Agreement (EPA) with the European Union

(EU). Now, some observers believe that South Africa might use the
interim EPA as a reason to break up the union. This would have huge

economic implications, especially for Lesotho and Swaziland, which rely
heavily on revenues from the SACU customs pool. It is understood that
EU Trade Commissioner Peter Mandelson is in South Africa to meet
President Thabo Mbeki this week to discuss South AfricaQs position on
the EPA. Mbeki, in his State of the Nation address, singled out the EPA
and regional integration as priorities, but observers said these
commitments were not reflected on the ground. South AfricaQs Chief

Trade negotiator Xavier Carim said, QNone of us are looking at the
break-up of the customs union. We will try to go forward in a way that
will not undermine the benefits achieved by the other countries. At a
SADC ministerial meeting in Botswana last week, South Africa is said to
have tabled 32 pages of concerns about the EPA, and is said to be
calling for the EPA to be negotiated afresh. However, Botswana in
particular is said to be angered by South AfricaQs stance, and a source
said that country was Qprepared to make the break.Q (Business Day,

February 25, 2008)

U.S. Trade with Sub-Saharan Africa Increases

¶4. (U) Total U.S. trade with Sub-Saharan Africa increased by 15% in

2007, with growth in both exports and imports. U.S. exports increased
by 19% to $14.4 billion, driven by growth in vehicles and parts, parts
for oil field equipment, wheat, non-crude oil, and medical equipment.
Of the top African destinations for U.S. products, exports to South

Africa rose by 24%, to Nigeria by 25%, and to Kenya by 11%. U.S.
imports from Sub-Saharan Africa increased by 14% to $67.4 billion in

¶2007. Imports from the oil producing countries grew in almost every

case, with imports from Gabon growing by 60%, from Nigeria by 18%, from
Chad by 12%, from Angola by 7%, and from Equatorial Guinea by 3%. U.S.
imports from South Africa continued to show strong growth of 21%, driven
by increased imports across several products, including platinum,
diamonds, ferroalloys, vehicles and automotive parts. AGOA imports were
$51.1 billion, 15% more than in 2006. Petroleum products continued to
account for 93% of AGOA imports. Non-fuel AGOA imports came to $3.4

billion, a 7% increase over 2005. The top five AGOA beneficiary
countries were Nigeria, Angola, South Africa, Chad, and Gabon. The U.S.
merchandise trade deficit with Sub-Saharan Africa continued to widen in
2007 to $53.0 billion, from $47.0 billion in 2006. Nigeria, Angola,

South Africa, and the Republic of Congo accounted for 90% of the U.S.
trade deficit with Sub-Saharan Africa in 2007. (U.S. Department of

Commerce, February 25, 2008)

GDP Growth Surprises

¶5. (U) According to Statistics South Africa (StatsSA), economic activity
increased by an annualized rate of 5.3% in the fourth quarter of 2007,
up from 4.8% in the third quarter and defying forecasts for a slump to
4.3%. The healthy pace of growth in the fourth quarter put GDP growth
for 2007 at 5.1%, below the 25-year record of 5.4% in 2006, but above
official estimates of 5%. Manufacturing output, the economyQs second-
biggest sector, delivered the biggest surprise, rising 8.2% after a

contraction of 2.5% in the third quarter blamed on vehicle industry

strikes. Growth in financial services, the economyQs biggest sector at
20% of GDP, slowed to 8.5% from 12.3% in the third quarter, but still
provided most of the impetus. Construction was another winner,
rocketing 14.2% and clocking up 16 quarters in a row of double-digit

growth as the official infrastructure spending drive gathers momentum.
However, growth in retail sales, the economyQs third-biggest sector,

slowed to 2.1% in the last quarter on the back of higher interest rates.
QThe data are incredibly upbeat but questions will still be asked about how much deterioration to expect in the first quarter of 2008, when we see the worst of the energy crisis impacting on the figures,Q said Razia Khan, regional research head for Africa at Standard Chartered. In last weekQs budget, the National Treasury predicted growth would slow to 4% in 2008 in response to power constraints, slackening consumer spending and a global slowdown. However, many economists think growth will be lower, with estimates between 3% and 4%. (Business Day, February 27, 2008)

Inflation Surged to a Near Five-Year Peak

¶6. (U) According to Statistics South Africa (StatsSA), the benchmark CPIX inflation gauge increased from 8.6% in December to 8.8% in January, its highest level since March 2003. Some analysts said this boosted the chances the South African Reserve BankQs Monetary Policy Committee (MPC) may hike interest rates at its next meeting in April 2008. A weaker rand along with sharp increases in fuel and electricity prices look set to propel CPIX above 9% in the next couple of months, and keep it above the MPCQs 3%-6% target range until early 2009. It has already breached the target for 10 months in a row. QThe Reserve Bank is likely to revise its inflation projections up, which increases the chance of a 50 basis point hike at its April monetary policy committee meeting, said Investec economist Annabel Bishop. At its meeting last month, the

MPC opted to keep its policy rate steady at 11%, giving more weight to the threat to economic growth than the inflation outlook, which has steadily deteriorated in response to rising global costs of both fuel and food. Consumer demand is slowing sharply on a cumulative four percentage point rise in lending rates since June 2006, while electricity constraints are set to erode output from mining and manufacturing. That would make another interest rate hike controversial, as well as unpopular. Despite criticism from trade unions and independent analysts, officials from the South African Reserve Bank and the National Treasury have repeatedly said they will not abandon or revise the inflation targeting framework, as it supports economic growth in the long run. (Business Day, February 28, 2008)

Power in South Africa

¶7. (U) Eskom sponsored a three-page Sunday newspaper advertisement outlining its plan for mitigating and resolving the power shortage.

Eskom expressed commitment to resolve the power emergency, noting there has been no load-shedding since February 4. Eskom briefly explained the problem as a current imbalance in the supply and demand for electricity in South Africa, manifested by a Qnegative reserve margin, and resulting in load-shedding to prevent a cascading failure of the network. The situation will remain extremely tight for the next 5-8 years until new power plants come on line. In addition, the ad noted the problems with coal quantity, quality, and wetness. EskomQs National Response Plan identifies three phases:

-- Phase 1 Q Stabilization (completed): Impose a 10% reduction in power consumption with mining and industrial consumers; Replenish coal stock-piles.

-- Phase 2 Q Power Rationing (March-July): Continue across-the-board 10% power reduction, establishing predictability to consumers.

-- Phase 3 Q Power Conservation (next four years): Fast-track new plants, while sustaining the power reduction to enable growth and assure operational reserves.

The final page of the advertisement exhorts residential consumers to adopt conservation and efficiency measures. QWe no longer have the luxury of excess capacity. We must embrace energy efficiency as a way of life.Q (Sunday Times, February 24, 2008)

Mining Takes on SA Power Crunch

¶8. (U) AfricaQs biggest gold-miner AngloGold Ashanti believes the power shortage in South Africa is manageable and expects to achieve enough energy savings to eliminate the effects of power rationing on output by the end of 2009, said CEO Mark Cutifani. Eskom is supplying mines

90% of their normal power usage and recently said this situation was expected to continue until 2012. Cutifani said that AngloGold would accelerate implementation of its five-year 15% energy efficiency program over 18 months. He said that South Africa would continue to provide a solid base for the gold company for at least 15 to 20 years, but Qit was not going to be the place where you see us drive growth.Q Mining giant Anglo American has similarly stated that the power crunch was not a disaster and the company would work closely with the SAG to put in place significant efficiency measures. The day before, number two gold producer Gold Fields announced that it would cut 6,900 jobs and close three shafts in South Africa, scale back output at one and suspend a life-extension project at a fourth, as a result of operating at 90% of

historical power consumption until at least 2012. Operations Chief

Terence Goodlace said Gold Fields will direct power supply to higher-
margin, revenue-generating operations, at the expense of lower-margin
shafts. Both Goodlace and CEO Ian Cockerill bemoaned the irony that the
company was facing these issues at a time when the rand-gold price was
at its highest level ever. Gold Fields also announced that it will cut
back production at its South Deep operation (said to be the largest

remaining gold ore-body in the world), as the recently acquired mine

continues to miss targets. (Mining Weekly, February 25-26, 2008)

Treasury Carbon Footprint Revealed

¶9. (U) The Treasury Department has registered its carbon footprint in
response to Finance Minister Trevor ManuelQs call to take concrete steps
to protect the environment. Manuel announced that Treasury work has
resulted in 38,000kg of carbon emissions and the use of over 37 tons of
paper (an equivalent of over 276 trees) this past fiscal year. However,
he noted that the budget documents were printed on bio-degradable and
chlorine-free paper called Triple Green, which is composed of 60% sugar
cane fiber that meets sustainable forestation standards. Manuel pledged
to reduce Treasury's carbon footprint and encouraged other departments
to emulate TreasuryQs efforts. The Minister also emphasized the need
for policy change in alignment to the agreements in the UN International
Panel on Climate Change, pertaining to carbon trades, cleaner production
and tax incentives. He announced the eminent introduction of a new levy
Qon the sale of electricity generated from non-renewable sources, at a
rate of 2 cents per kilowatt hour" this year. Treasury anticipates this
levy to yield over R2 billion ($266 million) in 2008/9 and R4 billion
($533 million) the next fiscal year. (South Africa Budget Speech,

February 20, 2008)

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